MACROECONOMIC

POLICIES FOR REOPENING AND REBUILDING AFRICAN ECONOMIES POST COVID-19

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Dr Alex Money and Prof Cameron Hepburn
Smith School of Enterprise and the Environment,
University of Oxford
Corresponding author: cameron.hepburn@new.ox.ac.uk

Reviewers

Prof. Urama, Kevin Chika, Senior Director

Dr. Ogunleye, Eric. K, Advisor to the Chief Economist and VP ; OIC Manager, Policy Management Division*

Dr. Wabĩri, Njeri, Consultant*.

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

*African Development Institute, African Development Bank Group, Abidjan, Cote d'Ivoire
Economic Governance and Knowledge Management, African Development Bank Group, Abidjan, Cote d'Ivoire

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EXECUTIVE SUMMARY

This paper considers some of the macro-economic policy options that are available for reopening and rebuilding African economies post COVID-19. Several options have already been laid out in the policy brief produced by the African Development Institute (ADI), following a virtual seminar convened by the ADI in April on COVID-19 macro-economic policy responses for Africa. A policy matrix setting out a compendium of national, regional and local options was also prepared[1]. Rather than duplicate the material in those documents, this paper provides a contextual framework and then expands on a few policy options in more detail, looking in particular at recovery policies that support green growth, as well as innovative approaches to funding interventions. In addition to the five recommendations emerging from our previous global survey of policymakers, we highlight eight particular interventions which we consider likely to have great merit for many African economies.

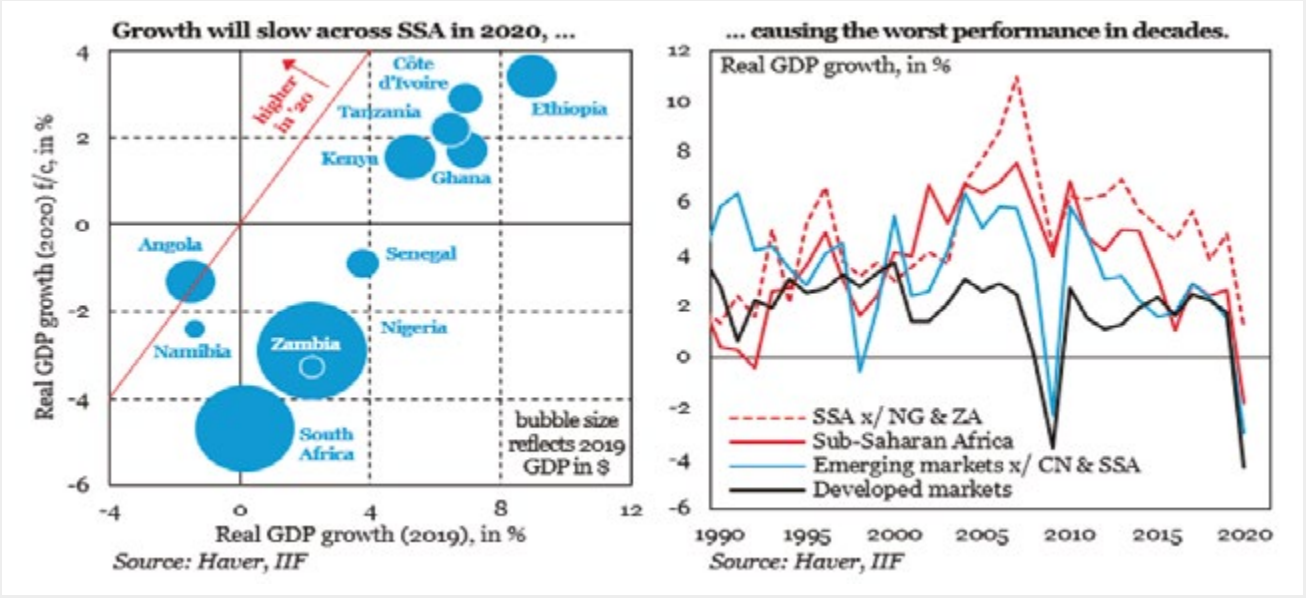
Key words: *Macro-economic policy, Africa, Green Growth, COVID-19.*

1. INTRODUCTION AND CONTEXT

Emerging data about COVID-19 already provides a clear indication that the social and economic consequences of this pandemic will vary greatly across countries and regions. Estimations of R0, the infection rate, suggest that the virus may be spreading more slowly in Africa than it is in many other parts of the world. This may reflect the swift introduction of containment measures in many African countries, including the closure of international borders, and the ready application of experience in dealing with pandemics in the recent past. Nonetheless, the eventual death toll across Africa could still approach 200,000 according to the WHO[2]. And while a lower rate of transmission may reduce the number of deaths in total, health officials warn of the risk that COVID-19 remains active for a prolonged period in Africa, compared to other parts of the world.

The recurrence of isolated outbreaks, possibly for years, presents specific challenges with regard to economic growth and social welfare. Economic output in Africa is currently projected to decline by between 1.7% and 5.0% in 2020[3], representing the first material recession on the continent for more than 25 years. Projections are based on scenarios that reflect the exceptionally high level of uncertainty in outcomes over the short and medium term, with significant variations in growth expectations of different countries (Figure 1). What is already clear however, is that Africa will endure a severe and unprecedented economic shock. The policy responses that will be pursued by member states in the coming months will be profoundly important for mitigating the negative long-term consequences of this shock, and in restoring national economies to trajectories of growth. When it comes to policy responses, one size will obviously not fit all: regional and local context must inform the choices that leaders across the continent make in terms of the instruments used, and their sequencing.

Figure 1 Growth in sub-Saharan Africa will slow in 2020 compared to 2019



Most policy measures across the world initially focused on containment. These measures have had a highly disruptive impact on aggregate demand, evidenced by sharp and sudden reductions in consumer spending and investment. Amid a collapse in business confidence, under- and unemployment has risen sharply. Emergency fiscal stabilisation measures, including income support and tax relief has resulted in an inevitable deterioration of public sector balance sheets: globally, the IMF forecasts that net public debt will rise from 69.4% of national income last year to 85.3% in 2020. In low income developing countries, the IMF projects a 50% increase in the cost of debt interest service, from 20% of tax revenues in 2019 to more than 30% this year. In recent days, many of the countries that were amongst the first to implement stringent containment measures have begun to set out – and in some cases, implement – their strategies for reopening the economy. It is striking that, while there was widespread agreement on the effectiveness of social distancing as a containment strategy, there is much less consensus on when and how these containment measures should be reversed. The policies outlined herein are proposed within this context of high uncertainty, internationally.

2. HETEROGENEOUS IMPACTS ACROSS AFRICA

It is already clear that the pandemic will impact African countries in different ways. Beyond the universal pressures on health systems and the effects of containment measures, there are three immediate and significant socioeconomic consequences of COVID-19. The first of these is a decline in trade. The demand-side and supply-side shocks as a result of containment measures will lead to an estimated 13-32% decline in international trade in 2020, according to the WTO[4], eclipsing the slump from the financial crisis of 2008-9. Africa's major trading partners in Asia, Europe and North America are all forecast to reduce imports by more than 30% in 2020, under the WTO's pessimistic scenario. Trade is likely to be most affected in sectors with complex global value chains. Across Africa, several countries are part of such value chains in a number of sectors[5], including agribusiness and apparel (Ethiopia and Kenya), manufacturing goods (Tanzania), the auto industry (South Africa), and mineral exporters that are part of the value chain in electronics (the Democratic Republic of Congo and Zambia). While WTO forecasts assume a bounce-back in trade in 2021, the damage that could be inflicted on African enterprises within the value chain due to the current disruption may hamper this recovery.

The second set of consequences relate to volatility in financial flows, particularly portfolio investment. Non-resident capital inflows have increased significantly in recent years, reflecting the region's progressive integration within the global capital marketplace, and a reduced reliance on concessionary capital. It has also

meant that Africa is now more exposed to swings in global risk sentiment, commodity prices, currencies, and interest rates than it may have been historically[6].

Eurobond issuance has grown strongly in the last five years, supported by low interest rates. In addition to debt service, amortisation is set to rise in coming years, increasing the pressure on public finances; although this is concentrated amongst a few countries. Growing remittances from the diaspora have also played an important part in financial flows, and it is likely that these will also come under pressure at least in the short term, as remitters adjust to changes in their own economic circumstances. Foreign Direct Investment, generally more stable than 'hot money' flows, is however concentrated in sectors that are sensitive to the impact of COVID-19; including the global value chains described previously. Outflows are also likely to accelerate due to the falling oil price, and lower commodity revenues more broadly.

Third, the global collapse in travel and tourism will hit many African countries particularly hard. In March 2020, the UNWTO projected that COVID-19 could lead to a 20-30% decline in international tourist arrivals globally[7]; an estimate that unfortunately now looks very optimistic. But even on that basis, the decline represents the reversal of around 5-7 years of growth in international tourism receipts; an unprecedented fall.

According to the UNWTO around 80% of all tourism businesses are small-and-medium-sized enterprises (SMEs), and the range of employment in the sector has been important to providing opportunities for women, youth and rural communities. The tourism industry in other regions may be better insulated due to their domestic markets; many countries in Africa draw much of their income from tourism from international visitors.

3. POLICY RESPONSE CONSIDERATIONS

African economies performed better than other developing countries during the 2008-9 global recession, in part because of a resilient informal sector which continued to support the domestic economy, maintaining incomes and consumption[8]. Today, the situation is very different: while informal sector employment remains a main income source for at least 60% of African households and over 80% percent of rural households, the ILO estimates that in April 2020, around 70% of informal sector workers in Africa lived in countries that already had implemented full or partial lockdowns[9]. The impact of falling incomes in the informal sector will be amplified by the very low levels of saving beyond the wealthiest 20-30% of households.

SMEs are fundamentally important to the prosperity of many African countries, and account for up to 90% of business activity10, significantly higher than in most other regions. SMEs are vulnerable to both supply-side and demand-side effects of the containment measures, and as the 'missing middle', face specific constraints in accessing liquidity and working capital as credit conditions tighten. Larger companies are more likely to avail of conventional financing from banks and other lending institutions, while the very smallest companies operate on a cash basis or may have access to microfinance. Many of the economic sectors most vulnerable to the pandemic – including tourism, hospitality, retail and light manufacturing – are dominated by SMEs.

Countercyclical monetary policies including emergency cuts in interest rates, and liquidity provision through open market operations are being applied in many countries globally; and there is scope for further monetary loosening in a number of African countries, given relatively low rates of inflation.

However, there are particular limitations to these options – portfolio outflows have reduced available liquidity, while weakening exchange rates due to deterioration in the terms of trade means that inflation could swiftly rise out of control. Also, the large share of the cash economy that is effectively 'unbanked', and the generally low rates of domestic savings, means that the efficacy of monetary loosening as a policy option is constrained.

The broad range of fiscal options open to policymakers provide valuable and necessary flexibility to respond adaptively to the specific requirements of each country. Equally, the scope of these options is restricted for many countries due to limited fiscal headroom, whether perceived or actual, and exacerbated by current levels of volatility and risk aversion on the international sovereign debt market. In proposing policy options herein, we are therefore sensitive to the risk of presenting panaceas that bear little resemblance to operational realities.

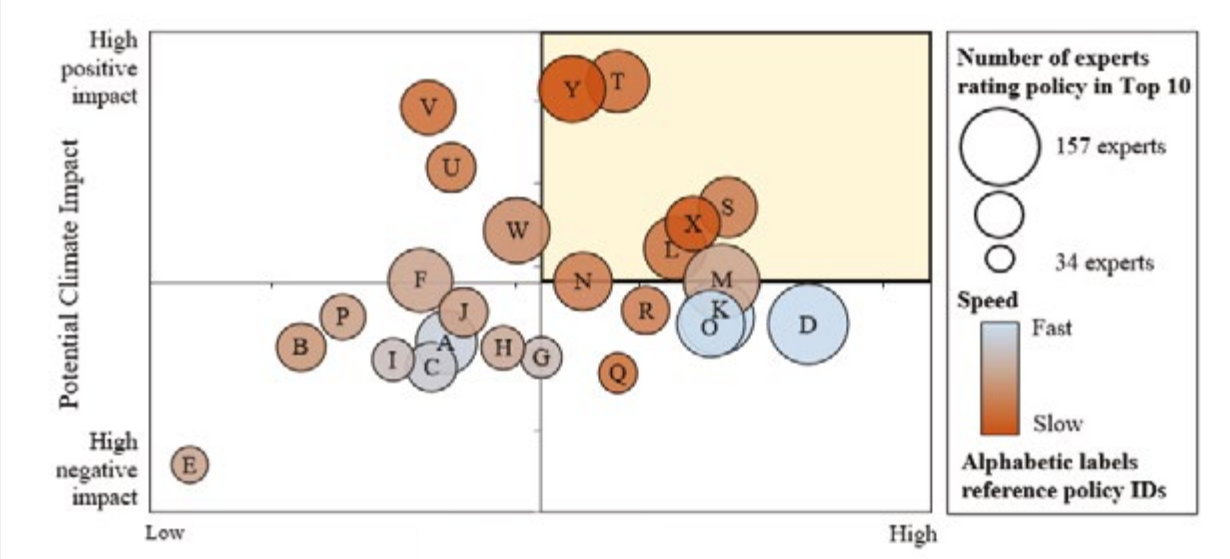
4. RECOVERY POLICIES THAT DELIVER GREEN GROWTH

A recent analysis[11] of possible COVID-19 economic recovery packages, at a global level, shows the potential for strong alignment between the economy and the environment. This research, led by the Oxford Smith School of Enterprise and the Environment, catalogued more than 700 stimulus policies into 25 broad groups and conducted a global survey of 231 experts from 53 countries, including senior officials from finance ministries and central banks.

The findings are that green projects create more jobs, deliver higher short-term returns per dollar spend and lead to increased long-term cost savings, by comparison with traditional fiscal stimulus. Particularly desirable policies include investment in renewable energy infrastructure such as wind and solar, which are labour intensive in the short term – potentially creating twice as many jobs per dollar than fossil fuel investments – increasing their multiplier effect. Over the long run, public investments in renewables drive down the costs of the clean energy transition and support a greener, more efficient, innovative, and productive economy, with higher spill overs that benefit wider society.

In the survey, respondents were asked to comparatively assess a range of policy responses to COVID-19; based on their speed of implementation, the long-run economic multiplier; climate impact potential; and overall desirability. At the global level, policies perceived to be in the desirable upper-right quadrant of Figure 2 (large, long-run multiplier and strongly positive impact on climate) included connectivity infrastructure (S), general R&D spending (X), education investment (L), clean energy infrastructure (T), and clean energy R&D spending (Y).

Figure 2 Policies perceived long-run multiplier, climate impact, speed and overall desirability (All respondents)

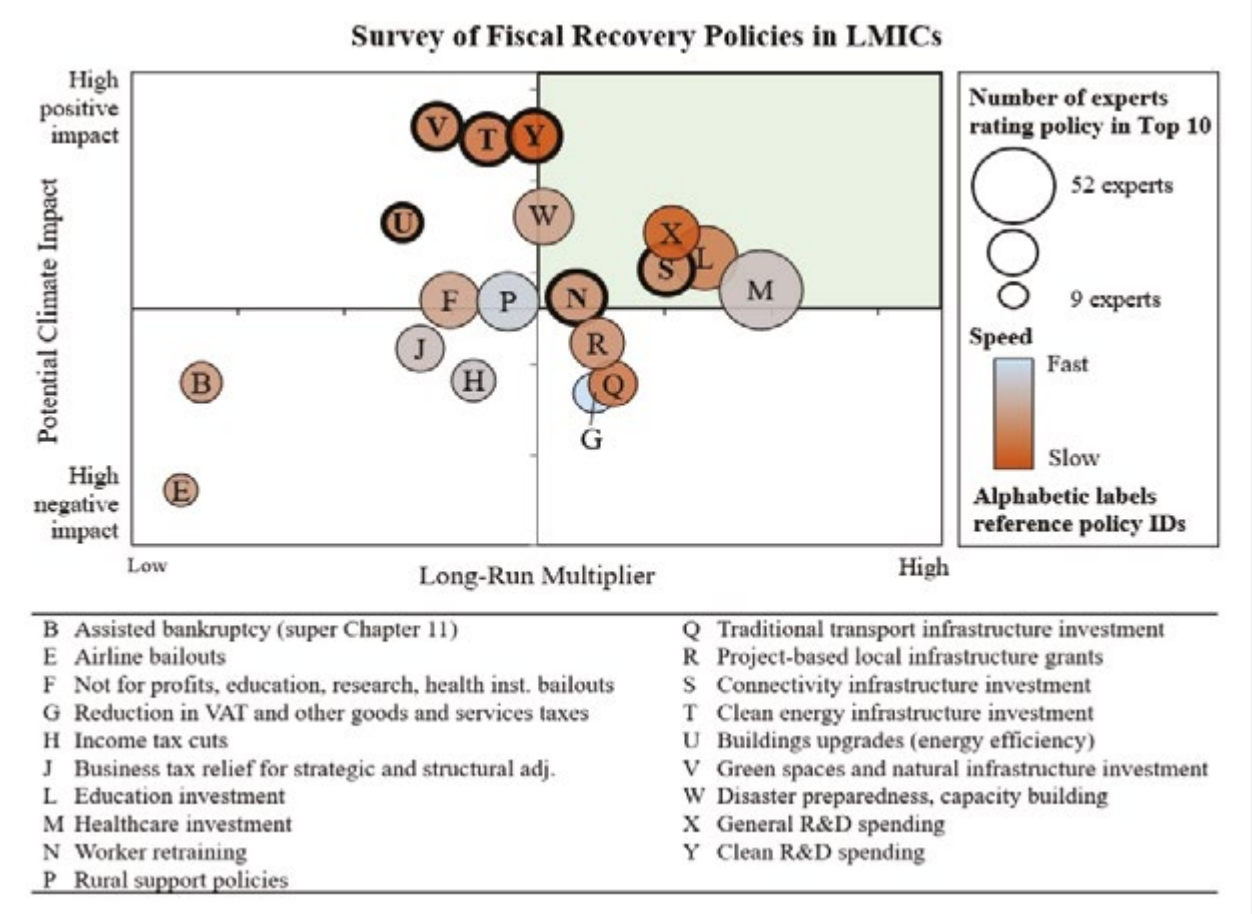


Hepburn et al. (2020)

A key insight from this research is that recovery policies can deliver against both economic and climate objectives. An exemplar policy in Africa would be rural support scheme spending, particularly that associated with sustainable agriculture, ecosystem regeneration, or accelerating clean energy installations. Moreover, there are non-economic, non-climate attributes of climate-positive policies which increase their overall desirability. And, self-evidently, poorly designed recovery policy is likely to be ineffective in delivering economic, climate, and social outcomes, regardless of theoretical potential. The research evidences that during the financial crisis of 2008-9, many governments needlessly wasted the opportunity for significant long-run economic benefits and climate impact.

For low- and middle-income countries, the policies perceived to be in the desirable upper-right quadrant of Figure 3 (large long-run multiplier and strongly positive impact on climate) are similar to those in Figure 2. There is a notable cluster including connectivity infrastructure (S), general R&D spending (X), education investment (L), and healthcare investment (M).

Figure 3 Policies perceived long-run multiplier, climate impact, speed and overall desirability (low- and middle-income country respondents)



4.1 SHORT-TERM POLICY OPTIONS

The policy matrix developed by the ADI in response to COVID-19 lists over twenty detailed options for application at the national level, catalogued to include the challenges of implementation, and remedial responses. These options are grouped into prevention and containment measures, monetary policy responses, and non-monetary policy responses. Further options are listed for application at the regional and global level. The aim of this paper is not to replicate the comprehensive compendium that has already been prepared, but rather to focus on a curated set of policy responses that may be appropriate in various contexts across Africa, using as a proxy for potency, the framework we applied in our survey, i.e. their speed of implementation; the long-run economic multiplier; and climate impact potential. Here, we briefly discuss two short-term policy options: strengthening health systems; and providing income support to rural and informal workers. A broader range of short-term measures including tax cuts, public spending, monetary easing and targeted debt relief are described in the ADI's policy matrix.

Health systems

In terms of strengthening health systems, governments are reinforcing their epidemiological and biological capacity by procuring testing kits and making basic protective personal equipment (PPE) available to medical and front-line staff working in urban, district and rural health centres. The global shortage of PPE in the early stages of the pandemic has ameliorated as new capacity has come on stream, and as the pressure on critical care facilities in other parts of the world has eased. Rapid and significant investment in the PPE supply chain that has already taken place should be leveraged to benefit health systems in Africa. This will require coordination on both the demand and supply side, as the inventory of PPE is spatially dispersed[12]; while requirements vary considerably from country to country. In addition to the reallocation of existing supplies, and the re-direction of production to those countries that need it most, there may be opportunities to invest in new manufacturing facilities in Africa, to help meet domestic demand for PPE. In many cases, these facilities could be repurposed in the future – for example, 3D printers can manufacture visors and other PPE, but can also be used to make spare parts – and so contribute both as a short-term response to the virus, as well as to building productive manufacturing capacity over the medium term. As a policy option, we propose measures that support the manufacture of PPE and other products, for example by waiving customs duties on imported 3D printers and the relevant raw materials. Incentives for businesses to set up PPE manufacturing facilities should also be considered, with the expectation that these businesses will expand in scope over time.

While a cheap, fast and reliable testing kit is still not ubiquitous, progress in this direction has been rapid, and it seems likely that efficacious testing kits will be widely available in coming weeks, or at rate sooner than a vaccination is likely to materialise. The modalities of testing, tracking and tracing are still at an experimental stage in many countries. However, given the high penetration of mobile phones in Africa, there is the potential to combine testing with low-cost, high-access track and trace applications in order to monitor and manage the spread of infection. As a policy option, we propose measures that stimulate the development of fit-for-local-purpose tracking applications, for example by sponsoring innovation competitions or providing grant funding for promising projects. Such measures are being used in other regions, with some early success.

With regard to the speed of implementation, the policy options proposed here are suitable for rapid deployment. The long-run economic multiplier could be significant in the case of new manufacturing capacity, which should lead to greater employment; and in the case of the tracking application, support the development of digital skills. Developing local manufacturing capacity as an alternative to imports could have climate impact benefits also, both in terms of reducing embedded carbon in the product, and – if the new facilities use modern, efficient energy sources – in the production process.

Rural and informal workers

Containment measures designed primarily to promote social distancing in densely populated areas have spill-over effects to rural communities. African famers are unable to move produce from their farms to wholesalers, while falling income in urban areas cuts back the market. Harvested food stuck in rural areas is already causing food shortages as well as inflation in urban food prices. Households in rural areas often supplement their income through informal activity in retail and services, agro-processing and artisan products. Demand is driven by incomes from agriculture, so earnings will be affected by the duration and extent of the containment measures. Informal employment is even more prevalent in urban areas, accounting for almost half of total hours worked[13]. As workers in the formal economy face increased under- and unemployment, their lack of purchasing power has a knock-on effect for the informal sector. Impacts are gendered, also. The majority of informal businesses in Africa are owned by women, and their income can provide independence and empowerment. Greater precarity for informal workers will have an amplified impact on gender inequality. Meanwhile, a smaller formal sector means that for many young people leaving school or further education, employment prospects are poor. This will add to the numbers seeking to make a living in the informal sector.

The policy measure that we propose is to provide income support to rural and informal workers. This can be delivered in a range of ways, including cash transfer programmes, in-kind transfers and wage protection measures. The purpose of a cash transfer programme is less to avoid a recession, and more to help people get through it in the short term. The logistics of administering such a scheme may be complex, particularly where records are unavailable, incomplete or out of date. In such circumstances, one option may be to create a cash transfer register based on citizens' mobile phone accounts, requiring them to respond to some prequalifying questions via SMS, and subsequently receiving income via mobile money transfers. There are obvious deficiencies in such an approach, including the ease in which it might be abused, for example by users opening multiple accounts. Also, the system excludes those who may not have or cannot afford a mobile phone. However, in many African countries, robust systems exist to limit fraudulent mobile money transactions, such as the requirement to register numbers with an authorised identity document. As a short-term policy response, and notwithstanding the risk of abuse, this could be an effective approach to at least partially support direct cash transfers. Already, at least 22 countries in Africa have announced COVID-19 cash transfer programmes[14]. As an alternative to cash, a similar approach might be used to make in-kind transfers, such as redeemable vouchers for food or essential supplies: an additional 13 countries have announced programmes of this nature. Other policy measures include ensuring health system provisions extend to the protection of workers in urban informal sector, by improving access to sanitisers and PPE. Less a policy option, but no less important is ensuring that the livelihoods of informal workers are suitably protected by the enforcement of law at this time of heightened precarity.

In the agricultural sector, a specific short-term challenge is food spoilage due to the suspension of transport. This can be addressed directly by mobilising the transport of food from farms to wholesalers, potentially by using government owned vehicles and military transport assets. A policy response of food mobilisation might be combined with an in-kind transfer, such that farm workers are paid for their produce, vulnerable citizens receive food, waste is reduced, and the cost of the scheme lowered s

Direct cash and in-kind transfers to the informal sector can be implemented quickly, are climate neutral and may have a modest multiplier effect, although this is not the primary objective.

4.2 MEDIUM-TERM POLICY OPTIONS

The policy matrix prepared by the ADI rightly highlights the importance of building resilience capacity as a medium-term objective. There are many levers to effect this, from promoting economic diversification through to fiscal reform and institutional strengthening. Specific measures such as investment in clean energy infrastructure, the removal of fossil fuel subsidies (while the oil price is low) and improving the climate resilience of capital stock are all to be particularly encouraged, given the multiplier benefits described previously. Here we discuss two specific policy options focused on financial innovation: a post COVID-19 recovery venture fund, and performance-based funding for rural water services.

Recovery venture fund

The AfDB's "High 5s" – electrification, food security, industrialisation, integration and quality of life[15] – set out a framework for supporting inclusive, green growth and scaling up investment. Their salience has become even more pronounced in the context of a post COVID-19 recovery. Mobilising the capital required to achieve these objectives is a perennial challenge. Initiatives including the annual Africa Investment Forum have made an important contribution, with 52 deals valued at US$40 billion securing investor interest in 2019[16]. However, a single deal accounted for more than half of this value, and investor interest was generally weighted towards larger ticket sizes with relatively mature investee businesses. When it comes to reopening and rebuilding African economies, experience from other regions shows that young, innovative and ambitious ventures can play a unique and pivotal role in catalysing growth and creating prosperity.

However, for early-stage ventures that require risk capital, mentoring and incubation support in Africa, the choices available are limited. As a policy option we propose the creation of a recovery venture fund, mandated to make equity investments in agri-tech, cleantech, fintech, health-tech and other digital skills-intensive companies across Africa, to support the scale-up of ventures aligned with the High 5s, and delivering a positive climate impact. Our thinking has been influenced by the recent launch of a programme[15] targeting the Asia-Pacific region. The proposed recovery venture fund comprises two components. First, a seed programme which would provide grant funding for market validation. Seed grants help de-risk future investment and support capacity building at an earlier stage of the business. In exchange grantees would provide investment rights to the investment fund, providing a proprietary pipeline of investment opportunities, and the ability to evaluate companies, pre-investment. Second, an investment fund that deploys 'patient capital' across a portfolio, targeting commercial returns in sectors that are key to building resilience and economic diversification, consistent with building the next generation of leading African companies. Investments should be made on the basis of expected impact across portfolio companies. For example, many medical facilities rely on diesel generators as a primary or backup source; or do without power during blackouts. The recovery venture fund could enable the de-risking and scalar adoption of novel clean-tech/ health-tech solutions.

The fund would obviously need to be capitalised. In the programme launched for Asia-Pacific this year, US$50 million was raised in a first close for a 17-year fund, with investors including Scandinavian development funds and the Clean Technology Fund (CTF)[18] , which promotes scaled-up financing for demonstration, deployment and transfer of low-carbon technologies with significant potential for long-term greenhouse gas emissions savings.

AfDB is one of the implementing agencies for CTF investments and could play an anchor role in the establishment of a recovery venture fund for Africa.

Implementation time could be fairly short, depending on extant capacity. The seed fund would make rapid, opportunistic grants in response to a range of COVID-19 requirements, using the volatility of the current period as a 'sandbox' to socialise the viability of the intervention proposed. Over the medium term, the most promising enterprises could graduate to the investment fund. The long run economic multiplier could clearly be very significant, depending on the nature of these investments,

Rural water services

One possible and particularly unwelcome legacy of COVID-19 in Africa is a 'long tail' of sporadic outbreaks that may be experienced for many months or even years after the disease has been notionally eradicated. This reflects challenges associated with rapidly growing populations, dispersed in remote areas, which are well documented in epidemiology research. Given the paramount importance of adequate sanitation and hygiene in controlling the spread of the disease, access to safe, affordable and reliable water services is critical. However, over 300 million Africans live without this access today[19] . Rural water policy typically transfers operational, institutional, and financial risks to individual communities and new approaches are necessary to fund the provision and maintenance of rural water services in order to achieve universal access (SDG 6.1) and to protect the health of millions more people. A central challenge for investing in rural water maintenance is the lack of clear investment options that can guarantee results. Well defined costs,

benefits, and risks are needed to give funders of all types the confidence that they know what their money is buying. The need for clarity applies equally to both public and private funding sources, although the risk-return profiles differ. Currently, no scalable mechanism exists to invest in rural water maintenance to achieve reliable service outcomes[20].

A policy option that we propose is the establishment of transparent, outcomes-based models for funding rural water services at scale; using performance contracts and verifiable indicators, and with payments contingent on outcomes. Designed appropriately, these models would use public funds to support providers in delivering a reliable service though both existing and new water supply infrastructure. Performance-based contracting can simultaneously lower financial risk exposure for the funder and improve supplier accountability: service providers would bear the upfront financial and operating risk of delivering against their contractual performance outcomes. This would also provide a much-needed incentive to maintain installed water infrastructure assets rather than allow them to fall into disrepair. Improving the functionality rates of rural water infrastructure would result in a better return on the significant quantum of capital expended by donors on handpumps and piped systems. Results-based funding contracts designed around reliable waterpoints, water volume and local revenue have the potential to accommodate a range of service models and stages of development while motivating service providers to progressively improve scale and efficiency of operations. The proposed contract design would allow for the incorporation of metrics such as water quality, service coverage, and broader sustainability criteria.

The mechanics of implementation are fairly straightforward. Many service providers operate in the rural water sector across Africa, and the performance-based funding mechanism proposed is used in other sectors and regions. The size of the economic multiplier as a result of reliable water provision will vary from one area to another, but there are clear direct and indirect benefits. The relationship between water security and climate change means that the provision of reliable rural water services will help communities adapt and even thrive under conditions of long-term environmental uncertainty.

4.3 LONGER-TERM POLICY OPTIONS

Setting macro-economic policy for the long term necessarily involves a degree of pragmatism. Amongst the range of suggested interventions in the ADI's policy matrix, a revamp of skills development policy and systems is proposed, with an emphasis on the future of work. Other responses include advancing progress in transitioning to a low carbon economy and adjusting sovereign borrowing strategies to mitigate against refinancing risk, while increasing financing capacity. Here we discuss two policy options that build on these proposals: creating a digital skills fund and executing debt-for-climate swaps.

Digital skills fund

COVID-19 is accelerating the transition to digital work. Even before the pandemic struck, there was an acute shortage of digital skills in most advanced economies. According to the World Economic Forum, there will be 133 million new jobs requiring digital skills by 2022[21]. Digital work pays better and reduces precarity. Digital skills are also highly relevant to sustainable development: they can lower mobility hurdles by requiring less travel, and also improve gender inclusivity. Reducing the requirement for workers to commute is a climate-friendly outcome. The upsurge in digital activity in response to the COVID-19 containment measures have likely permanently transferred economic value from the analogue to the digital economy. Strikingly, the pandemic has uprooted many of the traditional bindings of physical location and employment. This presents an unprecedented opportunity to create a platform for 'decent work' for tens of millions of African citizens over the coming decade.

We propose the creation of a digital skills fund to support a training, certification and employment programme. The optimal structure is for discussion, but it could operate at a national or regional scale. Digital skills education and training would involve in-situ and remote delivery of modules including software and programming, data analysis, digital design, machining and manufacturing. The use of tiered examinations for low (RQF 1,2), middle (RQF 3-5) and high (RQF 6-8) skill qualifications would create a span of capacity, certified via internationally accredited partnerships. A digital talent marketplace would provide access to remunerative work. Given the international digital skills shortage at present, borderless employment opportunities would present a valuable source of export earnings in the first instance. However, over time and as domestic economies diversify, expand and develop, these skills and capabilities could increasingly be deployed closer to home – representing an important source of comparative advantage. With a young, growing workforce, many African countries are well positioned to take advantage of the opportunities created. The opportunity costs associated with retraining and frictional unemployment – a significant issue for many economies in other regions with an expensive, ageing workforce – are comparatively low, while many digital skills are fungible across industries.

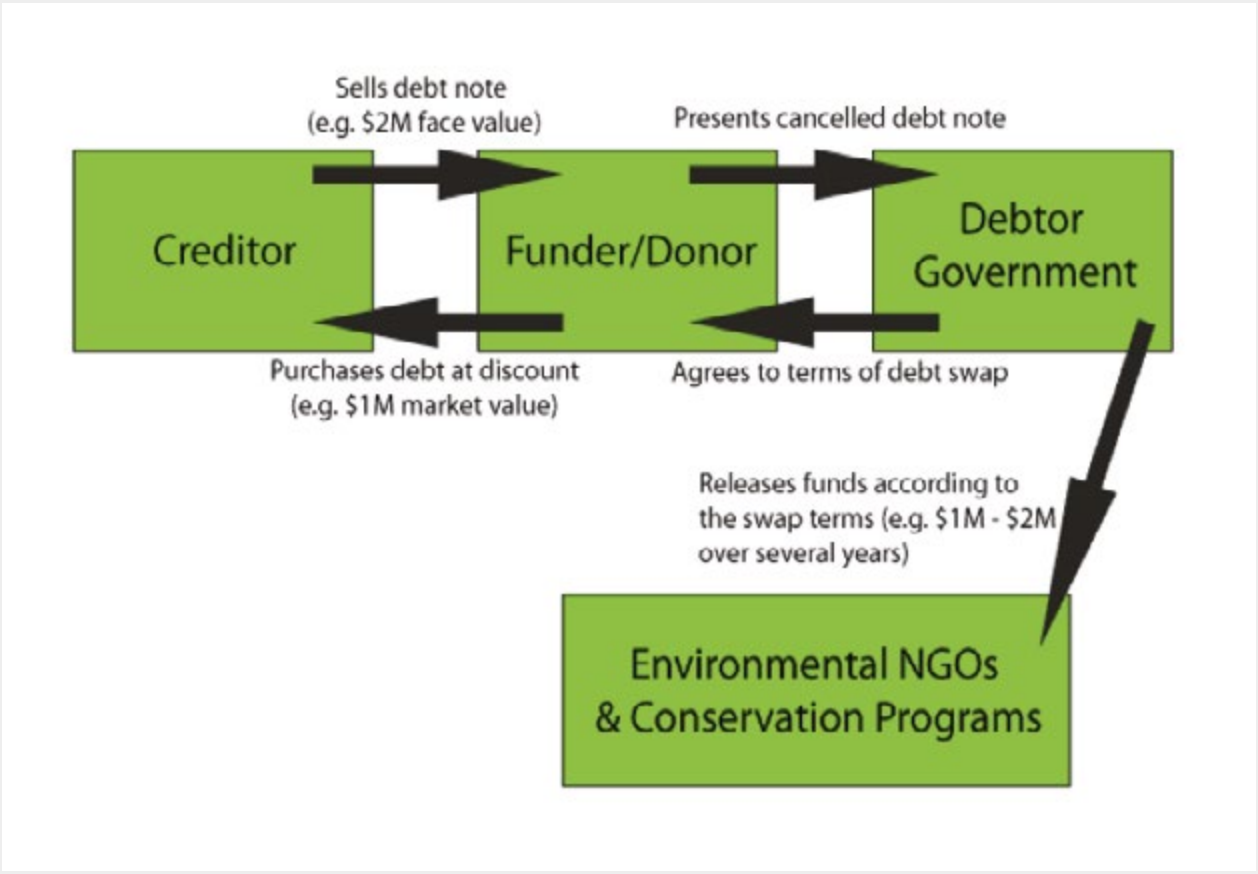
There are of course various challenges associated with implementation, including the provision of suitable ICT infrastructure, access to qualified trainers, financial support for students while in training, and the establishment of an accessible and active talent marketplace. In the case of ICT infrastructure, this has connections to the broader provision of economic and social infrastructure: establishing new models for revenue generation should help catalyse further investment in a broader set of infrastructure assets. In terms of training, one of the few positive legacies of COVID-19 is that it triggered a fresh wave of innovation in remote teaching and learning. Financial support will be necessary, and this is the reason for a fund. However, if designed appropriately, a share of earnings from digital employment could be recycled to create a sustainable, evergreen fund. Ensuring an active marketplace for talent is perhaps the greatest challenge. Coordination amongst development agencies and enlightened employers, along with the use of affirmative policies, could help address the issue.

Debt for climate swap

Debt-for-climate swaps (DCS) can mobilise resources for increasing climate-friendly impact while reducing the sovereign debt burden. The concept is substantively similar to debt-for-nature swaps that were particularly popular in the 1990s. In exchange for debt forgiveness, the debtor-government commits to invest the accrued savings in climate-related expenditures (Fig 4). The transaction is made possible by creditors being willing to sell the debt outstanding to a third party at a price lower than the face value.

A recent and high-profile use of the instrument occurred in the Seychelles, where The Nature Conservancy mobilised US$20 million of funding to buy out sovereign debt that saved the country around US$ 2 million in annual debt service payments.

Figure 4 A generic debt-for-climate swap arrangement



DCS are only viable under highly specific circumstances and are presented here not as a general policy option, but rather as a proactive and climate-friendly response to the additional stress on debt service obligations due to COVID-19. The market value of sovereign debt for some countries has fallen significantly, signalling incipient concern from creditors that there may be challenges in service or repayment. In the case where these concerns are legitimate, DCS may be worth exploring as an alternative to debt restructuring or default. A DSC programme typically involves three elements: engagement; debt acquisition; and investment in climate infrastructure. Engagement requires establishing general guidelines and inviting local and international organisations to participate. Once a plan is agreed and commitments confirmed, funding is put in place. The funders then acquire debt in market, usually at steep discount to face value, and present to the central bank for cancellation.

The central bank issues longer-dated, climate infrastructure bond in local currency. Finally, the government (in partnership with local organisations) disburses the value of the bond through investments in climate infrastructure, prioritising projects that support wider development objectives.

These are complex transactions to execute, involving negotiation across multiple stakeholders. Implementation is therefore rarely fast, although the intervention can be highly potent, particularly where it creates significant fiscal headroom for the debtor government[22]. In addition, it can be an attractive policy for driving public and private investment towards climate-resilient infrastructure. As a longer-term response to COVID-19 it is possible that DCS will feature more prominently; at any rate, it is worth consideration amongst the range of options that may be open to policymakers.

5. RECOMMENDATIONS FOR POLICY MAKERS

This short paper sets out a series of macro-economic policies for reopening and rebuilding African economies post COVID-19. The authors do not purport that these options are either complete or comprehensive, but rather, that they offer a pragmatic perspective for policy makers in what is an unprecedented period of socioeconomic uncertainty. The evidence is clear that policy responses can align economic recovery with positive environmental outcomes – offering labour-intensive activities with high economic multipliers that can be implemented relatively quickly, depending on the policy. A transition to net-zero emissions must be consistent with equitable sustainable development, and champion the cause of innovation in all forms to mobilise ideas, capital and people.

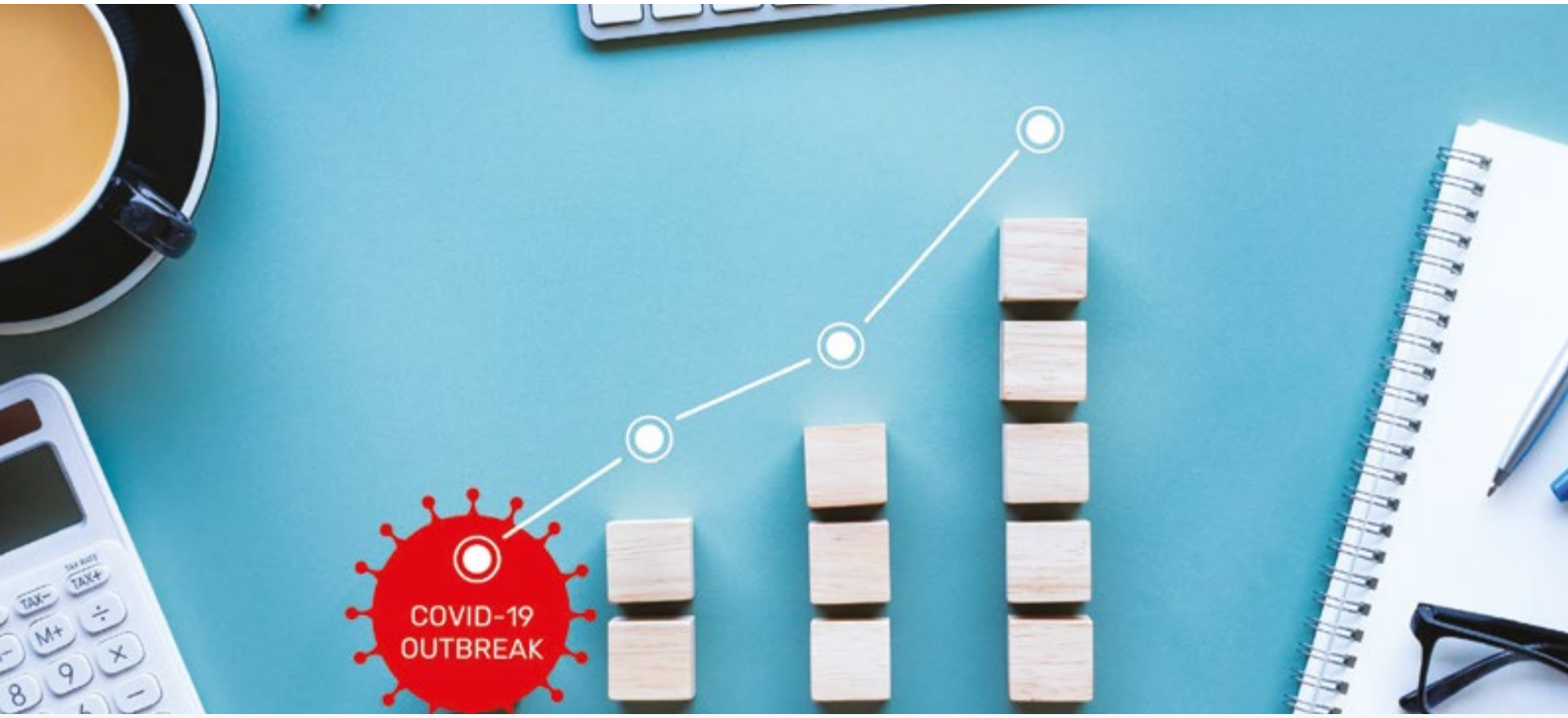
We make the following specific eight recommendations here:

1. measures that support the manufacture of PPE and other products
2. measures that stimulate the development of fit-for-local-purpose tracking applications
3. digital cash transfers
4. food mobilisation and transfers
5. scaling up the High 5s programme
6. funding rural water services at scale
7. digital skills fund
8. debt for climate swap

These are in addition to the five recommendations that emerge from our earlier research at the global level:

1. clean physical infrastructure investment,
2. building efficiency retrofits,
3. investment in education and training to address immediate unemployment from COVID-19 and structural unemployment from decarbonisation,
4. natural capital investment for ecosystem resilience and regeneration, and
5. rural support programmes.

Our single overarching recommendation to policy makers is to socialise fresh perspectives when formulating responses to the situation. The African Development Bank is well positioned to support member countries across the range of initiatives and activities that we propose and welcome the opportunity to engage further.



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